

**ITEM A3653**

**FINAL MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF) FOR  
THE PERIOD 2018 / 2019 TO 2020 / 2021  
(O/MMNEW/AA6/FINANCE/MAY 2018/FS 067-18)  
(MC 18-05-2018)**

**PURPOSE**

The purpose of this report is to present the Medium-Term Revenue and Expenditure Framework (MTREF) for the period 2018/2019 to 2020/2021 to Council for approval in terms of section 24(1) of the Municipal Finance Management Act (MFMA).

**BACKGROUND**

In terms of sections 24 of the MFMA

*“24. (1) The municipal council must at least 30 days before the start of the budget year consider approval of the annual budget.*

*(2) An annual budget—*

*(a) must be approved before the start of the budget year;*

*(b) is approved by the adoption by the council of a resolution referred to in section 17(3)(a)(i); and*

*(c) must be approved together with the adoption of resolutions as may be necessary—*

*(i) imposing any municipal tax for the budget year;*

*(ii) setting any municipal tariffs for the budget year;*

*(iii) approving measurable performance objectives for revenue from each source and for each vote in the budget;*

*(iv) approving any changes to the municipality’s integrated development plan; and*

*(v) approving any changes to the municipality’s budget-related policies.”*

**Contents of annual budgets and supporting documents**

Section 17 of the Municipal Finance Management Act (MFMA) requires that:

*“17 (1) An annual budget of a municipality must be a schedule in the prescribed format—*

*(a) Setting out realistically anticipated revenue for the budget year from each revenue source;*

*(b) Appropriating expenditure for the budget year under the different votes of the municipality;*

*(c) Setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;*

*(d) Setting out—*

- (i) Estimated revenue and expenditure by vote for the current year; and*
- (ii) Actual revenue and expenditure by vote for the financial year preceding the current year; and*

*(e) A statement containing any other information required by section 215(3) of the Constitution or as may be prescribed.*

*(2) An annual budget must generally be divided into a capital and an operating budget in accordance with international best practice, as may be prescribed.*

*(3) When an annual budget is tabled in terms of section 16(2), it must be accompanied by the following documents:*

*(a) Draft resolutions—*

- (i) Approving the budget of the municipality;*
- (ii) Imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and*
- (iii) Approving any other matter that may be prescribed;*

*(b) Measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;*

*(c) A projection of cash flow for the budget year by revenue source, broken down per month;*

*(d) Any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of section 34 of the Municipal Systems Act;*

*(e) Any proposed amendments to the budget-related policies of the municipality;*

*(f) Particulars of the municipality's investments;*

*(g) Any prescribed budget information on municipal entities under the sole or shared control of the municipality;*

*(h) Particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;*

*(i) Particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;*

*(j) Particulars of any proposed allocations or grants by the municipality to—*

- (i) Other municipalities;*
- (ii) Any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;*
- (iii) Any other organs of state;*
- (iv) Any organisations or bodies referred to in section 67(1);*

*(k) The proposed cost to the municipality for the budget year of the salary, allowances and benefits of—*

*(i) Each political office-bearer of the municipality;*  
*(ii) Councillors of the municipality; and*  
*(iii) The municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;*

*(l) The proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of—*

*(i) Each member of the entity's board of directors; and*  
*(ii) The chief executive officer and each senior manager of the entity; and*

*(m) Any other supporting documentation as may be prescribed."*

### **Format of the annual budget**

Regulation 9 of the Municipal Budget and Reporting Regulations, 2009 (MBRR) require that the annual budget be in a prescribed format.

*"9. the format of the annual budget and its supporting documentation of a municipality must be in the format specified in Schedule A and include all the required tables, charts and explanatory information, taking into account any guidelines issued by the minister in terms of section 168(1) of the Act"*

The draft budget is presented in the following tables which is the format as required by the MFMA and the MBRR:

- a) Table A1 - Budget Summary;
- b) Table A2 - Budgeted Financial Performance (Revenue and expenditure by standard classification);
- c) Table A3 - Budgeted Financial Performance (Revenue and Expenditure by Municipal Vote);
- d) Table A4 - Budgeted Financial Performance (Revenue and Expenditure);
- e) Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding;
- f) Table A6 - Budgeted Financial Position;
- g) Table A7- Budgeted Cash Flows;
- h) Table A8 - Cash backed reserves / accumulated surplus reconciliation;
- i) Table A9 - Asset management; and
- j) Table A10 – Basic Service Delivery Measurement;

## **DISCUSSION**

### **PART 1 – DRAFT ANNUAL BUDGET**

#### **1.1 Mayor's Report**

*This page is left intentionally blank and will be filled by the Mayors Speech to Council.*

## 1.2 Executive Summary

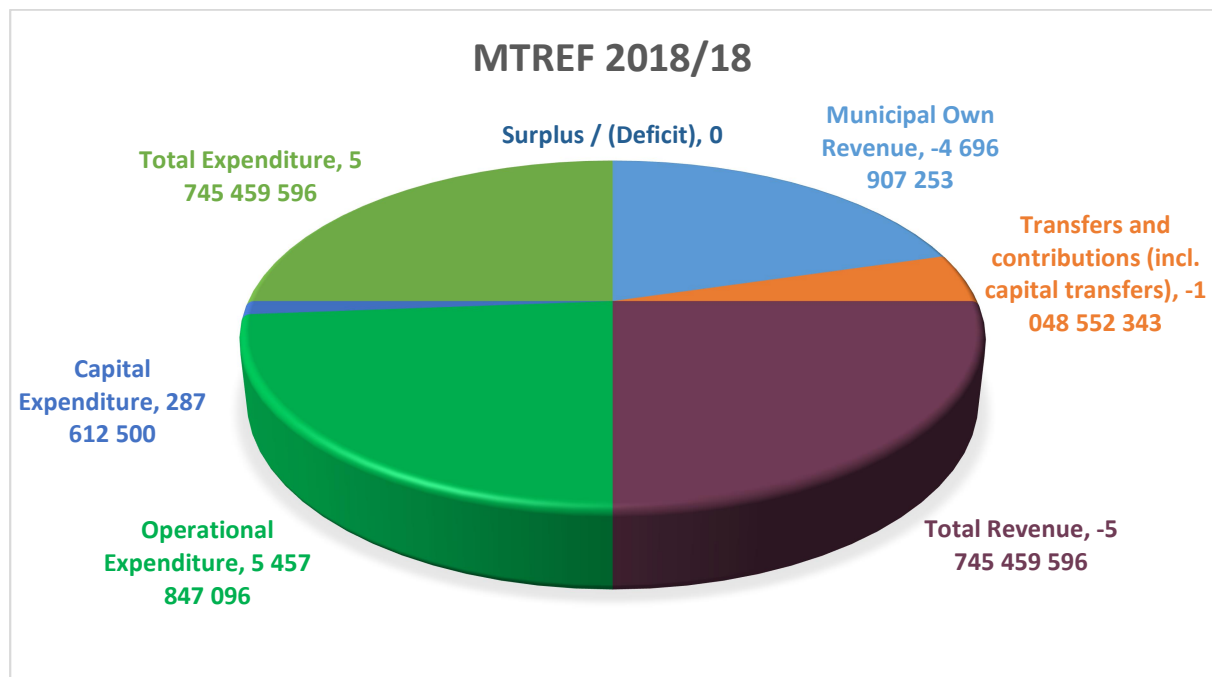
The proposed final budget for the financial year is R 5 745 459 596 which is an operational budget of R 5 457 847 096 and a capital budget of R 287 612 500. This represents a decrease of R 471 929 968 or 8% on the tabled budget of R 6 217 389 564. The budget was decreased as part of re-basing the budget to ensure that the projected revenues realise, to decrease expenditure and financial commitments, and to ultimately stabilise the financial situation of the municipality.

The proposed final budget also represents a decrease of R 40 584 120 or 1% on the adjustment budget of the 2017/18 financial year. The decrease of revenue during the 2017/18 adjustments budget was largely due to the economic effect of the steel industry which resulted in a decrease in the electricity revenue. See **Annexure (pages 23 - 33)**.

**Table 1 - Consolidated Overview of the 2018/19 MTREF**

Description	2017/18	2018/19 MTREF		
Rand	Adjustments Budget	Budget Year 2018/19	Budget Year+1 2019/20	Budget Year+2 2020/21
Municipal Own Revenue	-4 818 397 817	-4 696 907 253	-4 918 963 032	-5 177 559 884
Transfers and contributions (incl. capital transfers)	-967 645 899	-1 048 552 343	-1 093 306 794	-1 145 376 208
<i>Total Revenue</i>	<i>-5 786 043 716</i>	<i>-5 745 459 596</i>	<i>-6 012 269 825</i>	<i>-6 322 936 092</i>
Operational Expenditure	5 402 584 351	5 457 847 096	5 621 022 168	5 952 750 974
Capital Expenditure	383 459 365	287 612 500	-391 247 657	-370 185 117
<i>Total Expenditure</i>	<i>5 786 043 716</i>	<i>5 745 459 596</i>	<i>6 012 269 825</i>	<i>6 322 936 092</i>
<i>Surplus / (Deficit)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>

**Chart 1 - Consolidated Overview of the 2018/19**



R 4 696 907 253 of R 5 745 459 596 or 82% of the total municipal income in the 2018/2019 financial year will be funded by own funds while R 1 048 552 343 of R 5 745 459 596 or 18%

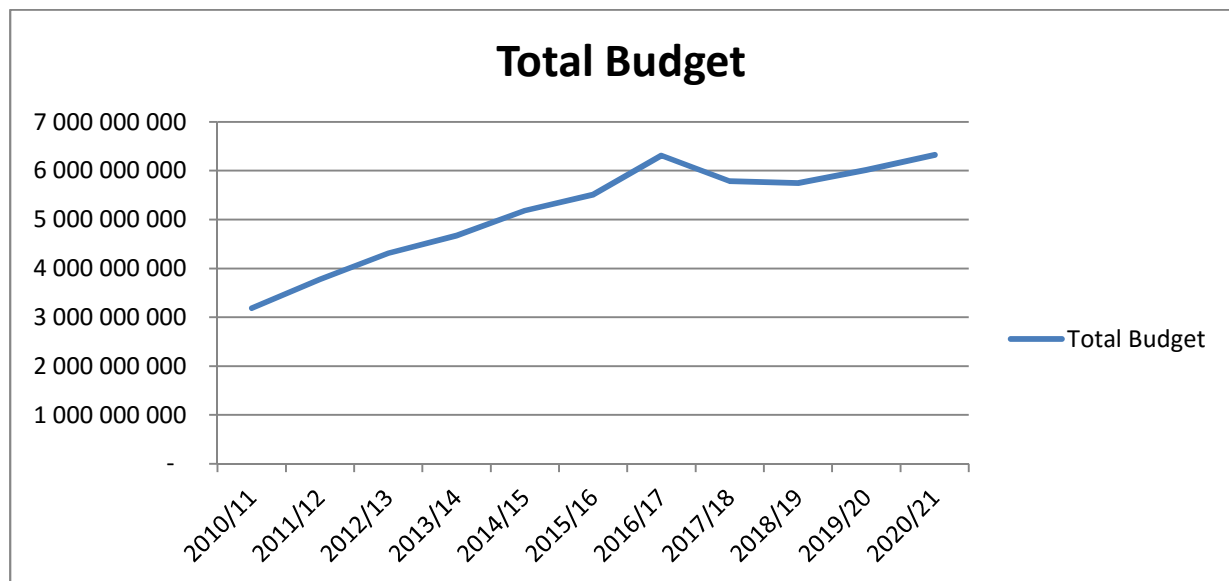
will be from government grants and subsidies. The budgeted contribution to the provision for doubtful debts is 20.75%, translating into a collection rate of 79.25%.

Municipal own revenue is disclosed net of amounts of indigents subsidy calculated as per policy.

**Table 2 – Budget growth over a Ten-Year Horizon**

Financial Year	Total Budget	Growth - Rand	Growth - %
2010/11	3 186 895 699		
2011/12	3 774 676 469	587 780 770	18%
2012/13	4 310 804 394	536 127 925	14%
2013/14	4 669 401 296	358 596 902	8%
2014/15	5 183 828 229	514 426 933	11%
2015/16	5 510 293 223	326 464 994	6%
2016/17	6 309 248 802	798 955 579	14%
2017/18	5 786 043 716	-523 205 086	-8%
2018/19	5 745 459 596	-40 584 120	-1%
2019/20	6 012 269 825	266 810 229	5%
2020/21	6 322 936 092	310 666 267	5%

**Chart 2 – Growth trend over a Ten-Year Horizon**

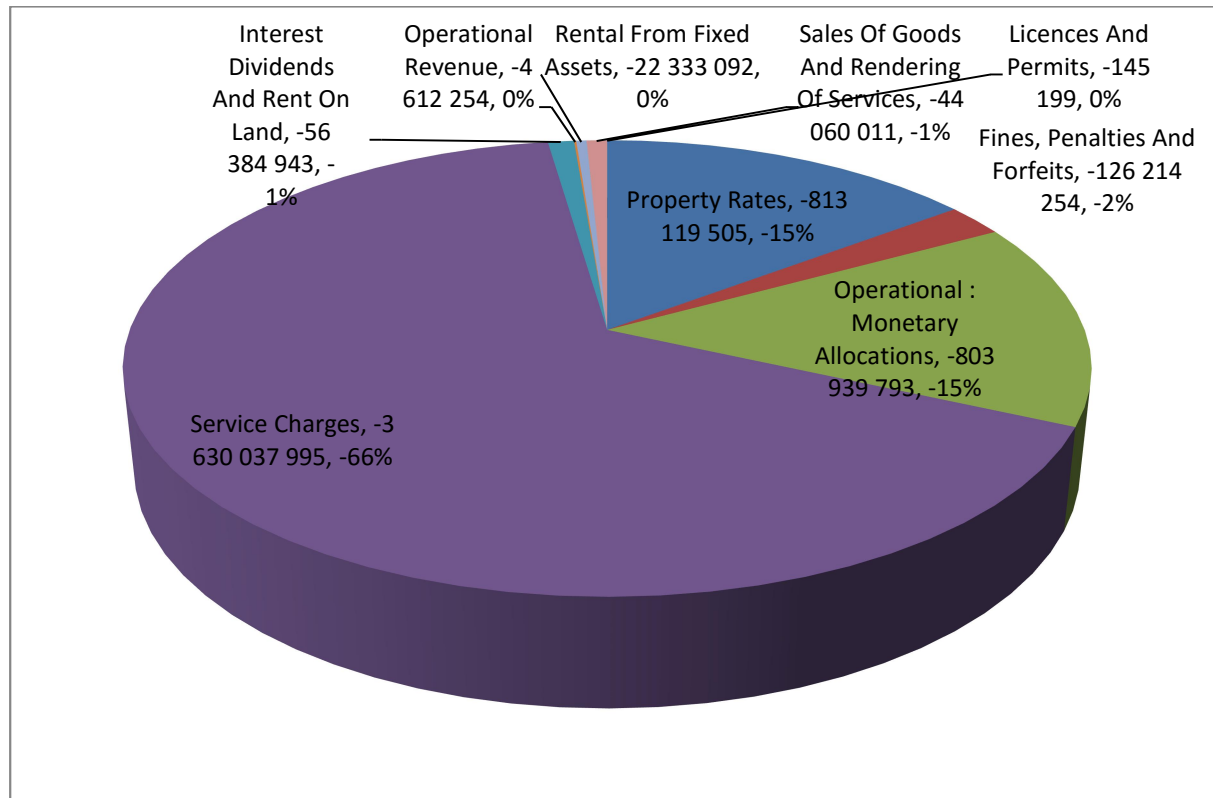


### 1.3 Operating Revenue Framework

**Table 3 - Summary of revenue classified by main revenue source**

Item Group	Budget Outer 1	Budget Outer 2	Budget Outer 3
<b>REVENUE</b>			
Property Rates	-813 119 505	-861 888 916	-913 612 010
Fines Penalties And Forfeits	-126 214 254	-132 893 824	-146 940 984
Operational : Monetary	-803 939 793	-869 908 144	-943 619 358
Service Charges	-3 630 037 995	-3 789 208 297	-3 975 049 557
Interest Dividends And Rent On Land	-56 384 943	-59 679 226	-62 873 427
Operational Revenue	-4 612 254	-4 861 285	-5 128 627
Rental From Fixed Assets	-22 333 092	-23 539 181	-24 832 285
Sales Of Goods And Rendering Of Services	-44 060 011	-46 739 253	-48 961 537
Licences And Permits	-145 199	-153 050	-161 457
	<b>-5 500 847 046</b>	<b>-5 788 871 176</b>	<b>-6 121 179 242</b>

**Chart 3 - Summary of revenue classified by main revenue source**



The largest revenue items are electricity revenue at R 1 723 016 672 of R 5 745 459 596 or 32%, water revenue at R 1 434 018 228 of R 5 745 459 596 or 27%, assessment rates at R813 119 505 of R 5 745 459 596 or 15% and government grants at R 1 048 552 343 of R5 745 459 596 or 13% of the total revenue. Revenue from electricity and water sales, government grants and property rates remain the main income items for the MTREF period as can be seen on the table “percentage growth in revenue by main revenue source” below.

**Table 4 - Percentage growth in revenue by main revenue source**

Description	2018/19 MTREF					
	Budget Year 2018/19	%	Budget Year+1 2018/19	%	Budget Year+2 2018/19	%
Revenue By Source	R		R		R	
Property Rates	-813 119 505	15%	-861 888 916	15%	-913 612 010	15%
Service Charges – Electricity Revenue	-1 723 016 672	31%	-1 604 272 578	28%	-1 508 369 869	25%
Service Charges – Water Revenue	-1434018228	26%	-1 622 825 105	28%	-1 835 816 523	30%
Service Charges – Sanitation Revenue	-288 837 189	5%	-358 964 322	6%	-406 774 770	7%
Service Charges – Refuse Revenue	-184 165 907	3%	-203 146 292	4%	-224 088 394	4%
Service Charges – Other	0	0%	0	0%	0	0%
Rental of Facilities and Equipment	-22 333 092	0%	-23 539 181	0%	-24 832 285	0%
Interest Earned – External Investments	-8 081 671	0%	-8 518 081	0%	-8 986 575	0%
Interest Earned – Outstanding Debtors	-48 303 272	1%	-51 161 145	1%	-53 886 852	1%
Dividends Received	0	0%	0	0%	0	0%
Fines, Penalties and Forfeits	-126 214 254	2%	-132 893 824	2%	-146 940 984	2%
Licences and Permits	-145 199	0%	-153 050	0%	-161 457	0%
Agency Fees	0	0%	0	0%	0	0%
Transfers and Subsidies	-803 939 793	15%	-869 908 144	15%	-943 619 358	15%
Other Revenue	-48 672 265	1%	-51 600 538	1%	-54 090 164	1%
Gains on Disposal of PPE	0	0%	0	0%	0	0%
<b>Total Revenue (excluding capital grants and transfers)</b>	<b>-5 500 847 047</b>	<b>100%</b>	<b>-5 788 871 176</b>	<b>100%</b>	<b>-6 121 179 241</b>	<b>100%</b>

Operating grants and transfers total R 803 939 793 in the 2018/2019 financial year and increase to R 869 908 144 and R 943 619 358 in the 2019/2020 and 2020/21 financial years respectively. The amounts include health subsidies. There is a process underway of the provincialisation of the health services and the budget will be adjusted accordingly when the process is concluded. The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:



**Table 5 - Operating Transfers and Grant Receipts**

Description	2018/19 MTREF		
Rand	Budget Year 2018/19	Budget Year+1 2018/19	Budget Year+2 2018/19
<b>RECEIPTS - Operating Transfers and Grants</b>			
<b>National Government:</b>			
Local Government Equitable Share	707 724 000	770 960 000	838 676 000
Finance Management Grant	1 550 000	2 015 000	2 015 000
EPWP Incentive	2 746 000	-	-
MIG Operational	8 269 450	8 448 350	8 943 150
	<b>720 289 450</b>	<b>781 423 350</b>	<b>849 634 150</b>
<b>Provincial Government:</b>			
Health Subsidy	69 008 343	72 734 794	76 735 208
GRAP 17	750 000	750 000	750 000
Library Grant	13 892 000	15 000 000	16 500 000
	<b>83 650 343</b>	<b>88 484 794</b>	<b>93 985 208</b>
<b>Total Operating Transfers and Grant Receipts</b>	<b>803 939 793</b>	<b>869 908 144</b>	<b>943 619 358</b>

### 1.3.1 Property Rates

The levying of rates forms part of a municipality's annual budget process as set out in Chapter 4 of the Municipal Finance Management Act. A municipality must annually at the time of its budget process review the amount in the Rand of its current rates in line with its annual budget for the next financial year.

In terms of Sections 2, 7, 8 and 14 of the Local Government: Municipal Property Rates Act 6 of 2004 ("the Act"), read with Sections 4(1)(c)(ii) and 11(3)(i) and 75A of the Local Government: Municipal Systems Act 32 of 2000, it is proposed that the cent in the Rand to be levied for the financial year 1 July 2018 to 30 June 2019, on the market value of property or on the market value of a right in property within the area of jurisdiction of the Council as appearing in the valuation roll, in respect of the various categories of properties increases with 6.1%.

It is proposed that the following be maintained for the 2018/2019 financial year:

1. The R185 000 additional reduction on the market value of the developed residential properties be maintained at R235 000; and

2. The percentage rebates on the property rates levies be maintained at 30%. It needs to be highlighted that the following factors were taken into consideration in determining the cent in the rand to be levied as well as the amount (market value) in respect of the reduction and the decrease on percentage rates rebate:

- The unemployment rate in the Emfuleni Local Municipality area, the highest unemployment rate in Gauteng;
- Emfuleni has the lowest per capita income in the Province;
- Current economic climate and CPI;
- Assistance to the poor and needy as well as lower income groups and pensioners;
- Influence of the market values as per municipal valuation roll valid for the period 1 July 2017 till 30 June 2019, implementation date 1 July 2017.

The impact of the increase of the market values on all categories of properties on the 2017/2019 municipal valuation roll to be implemented 1 July 2017 as well as the rebate on the rates levies in respect of developed residential properties will have an influence the property rates payable by property owners. The increase in the amount payable on the main property categories are included in the **Separate Cover document (pages 100 - 109)**.

#### Property Rates Levies

Refer to separate report on rate levies as part of the draft budget report. See **Separate Cover document (pages 100 - 109)**.

#### 1.3.2 Sale of Water and Impact of Tariff Increases

Net Water Revenue of R 1 434 018 228 comprises of gross billings of R 1 833 755 819 less the combined Indigent Subsidy and Revenue Foregone of R 399 737 591. The consumption beyond the 6kl is allowed by section 13(2) of the Indigent Household and Consumer Subsidy Policy approved by Council for un-metered households. The expense will be treated as Revenue Foregone in the 2018/19 financial year.

A tariff increase of 12.2 per cent from 1 July 2018 for water is proposed in line with the bulk tariff increase from Rand Water.

#### 1.3.3 Sale of Electricity and Impact of Tariff Increases

The Net Electricity Revenue of R 1 723 016 672 represents an increase of R 110 111 191 (or 7%) on the 2017/2018 adjustments budget amount of R 1 612 905 481. The amount of R1 723 016 672 comprises of gross billings of R 2 027 436 623 less the Indigent Subsidy of R304 419 951.

The proposed average tariff increase is 6.84%. The Guideline Tariff Increase for municipalities is also set at 6.84% as per the communication from NERSA published on 28 February 2018. The tariff increase is subject to approval by NERSA.

#### 1.3.4 Sanitation and Impact of Tariff Increases

Sanitation revenue of R 288 837 189 represents a decrease of R 78 122 130 or 21% on the 2017/2018 budget of R 366 959 319. Household sanitation is linked to 70% of water consumption. The amount of R 288 837 189 comprises of gross billings of R 455 968 367 less the Indigent Subsidy of R 167 131 178.

The proposed tariff increase is 12.2% in line with the proposed bulk tariff increase from Rand Water.

### 1.3.5 Waste Removal and Impact of Tariff Increases

Refuse removal revenue of R 184 165 907 represent a decrease of R 12 900 797 or 6.5% on the 2017/2018 budget of R 197 066 704.

### 1.3.6 Fines

Generally Recognised Accounting Practice interpretation standard iGRAP1 "Applying the Probability Test on the Initial Recognition of Revenue" was implemented by the municipality with effect from the 2013/2014 annual financial statements. Traffic fines revenue recognised in the annual financial statements for the financial year were in terms of the standard. The revenue budget for the line item starting in the current financial year was provided for in line with the interpretation standard but projections were reduced as informed by performance in the previous financial year.

## 1.4 Operating Expenditure Framework

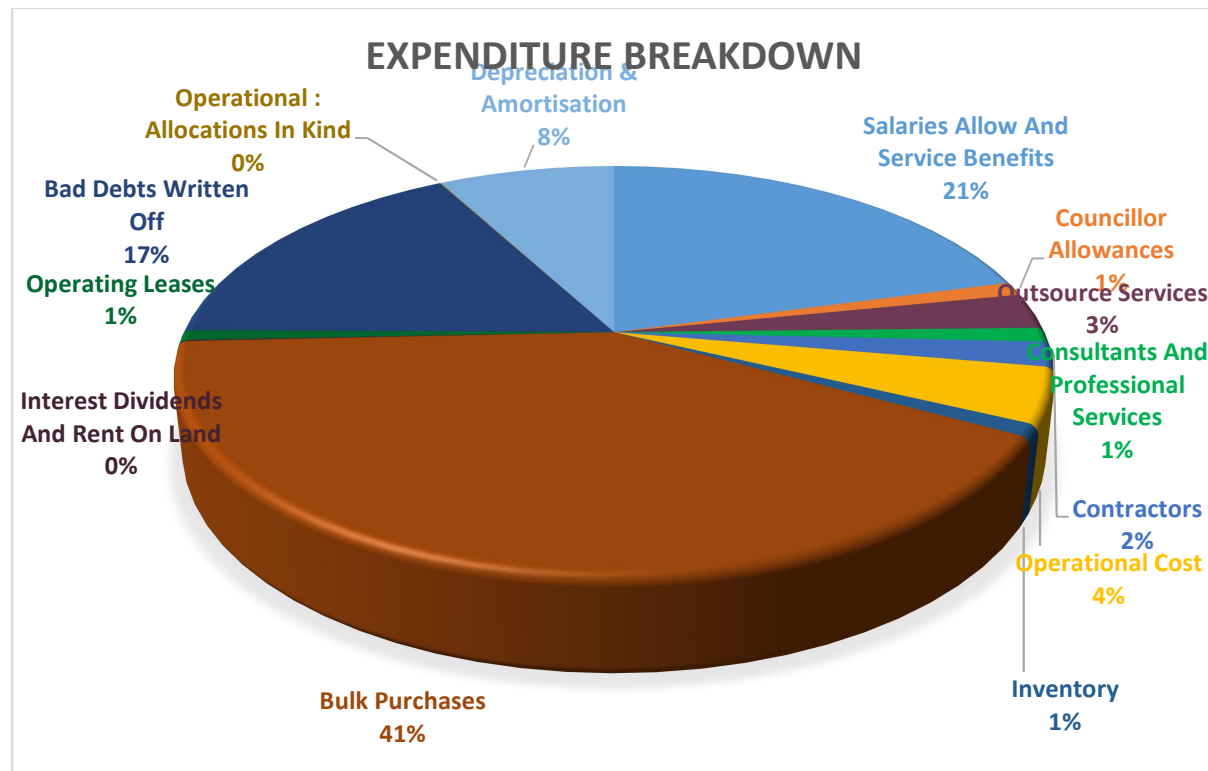
The following table is a high level summary of the draft 2018/2019 MTREF expenditure budget classified per main type of operating expenditure:

**Table 6 - Summary of operating expenditure by standard classification item**

	Budget Year 2018/19	Budget Year+1 2018/19	Budget Year+2 2018/19
OPERATIONAL EXPENDITURE	R	R	R
Salaries Allow And Service Benefits	1 132 991 682	1 205 542 671	1 237 309 072
Councillor Allowances	58 877 329	62 263 984	63 220 457
Outsource Services	152 896 638	155 547 262	158 590 048
Consultants And Professional Services	61 331 186	62 819 329	64 415 858
Contractors	107 296 450	108 514 234	109 780 649
Operational Cost	237 878 713	247 091 434	254 546 701
Inventory	51 644 531	54 121 846	57 576 006
Bulk Purchases	2 251 495 530	2 294 676 288	2 398 383 484
Interest Dividends And Rent On Land	4 326 091	4 559 700	4 810 484
Operating Leases	44 222 180	45 066 381	46 289 455
Bad Debts Written Off	926 117 580	931 031 116	1 083 302 506
Operational : Allocations In Kind	2 257 793	244 913	258 384
Depreciation & Amortisation	426 511 393	449 543 010	474 267 871
	<b>5 457 847 096</b>	<b>5 621 022 168</b>	<b>5 952 750 975</b>

The following chart gives a breakdown of the main operational expenditure categories for the 2018/19 financial year:

**Chart 4 – Operational Expenditure Breakdown**



**Table 7 – Percentage growth in expenditure by expenditure type**

	Budget Year 2018/19	%	Budget Year+1 2018/19	%	Budget Year+2 2018/19	%
OPERATIONAL EXPENDITURE	R		R		R	
Salaries Allow And Service Benefits	1 132 991 682	21%	1 205 542 671	21%	1 237 309 072	21%
Councillor Allowances	58 877 329	1%	62263984	1%	63 220 457	1%
Outsource Services	152 896 638	3%	155 547 262	3%	158 590 048	3%
Consultants And Professional Services	61 331 186	1%	62 819 329	1%	64 415 858	1%
Contractors	107 296 450	2%	108 514 234	2%	109 780 649	2%
Operational Cost	237 878 713	4%	247 091 434	4%	254 546 701	4%
Inventory	51 644 531	1%	54 121 846	1%	57 576 006	1%
Bulk Purchases	2 251 495 530	41%	2 294 676 288	41%	2 398 383 484	40%
Interest Dividends And Rent On Land	4 326 091	0%	4 559 700	0%	4 810 484	0%
Operating Leases	44 222 180	1%	45 066 381	1%	46 289 455	1%

	<b>Budget Year 2018/19</b>	<b>%</b>	<b>Budget Year+1 2018/19</b>	<b>%</b>	<b>Budget Year+2 2018/19</b>	<b>%</b>
<b>OPERATIONAL EXPENDITURE</b>	<b>R</b>		<b>R</b>		<b>R</b>	
Bad Debts Written Off	926 117 580	17%	931 031 116	17%	1 083 302 506	18%
Operational : Allocations In Kind	2 257 793	0%	244 913	0%	258 384	0%
Depreciation & Amortisation	426 511 393	8%	449 543 010	8%	474 267 871	8%
	<b>5 457 847 096</b>	<b>100%</b>	<b>5,621,022,168</b>	<b>100%</b>	<b>5,952,750,974</b>	<b>100%</b>

- The largest operational expenditure items are bulk costs at 41%, followed by salary costs at 21% and debt impairment at 17%;
- Salary projections were adjusted with an increase of CPI% plus 1% as guided by MFMA Budget Circular 89;
- Remuneration of Councillors is calculated in terms of the Remuneration of Public Office Bearers Act. The allowances were determined in terms of Government Gazette No. 41335 dated 15 December 2017 and adjusted with a percentage of CPI+1% in terms of MFMA Budget Circular 89;
- The budgeted provision for doubtful debts (debt impairment) is 17% of total operational costs.
- Depreciation has been fully provided for as estimated by the Assets Department.

#### 1.4.1 Free Basic Services: Basic Social Services Package

A consumer qualifying for indigent support must receive the subsidies as determined annually during the preparation of the municipality's budget. The municipality has a challenge of controlling consumption of water services by indigent households and policy amendments may be necessary to ensure controlled consumption and accounting for free basic services. Actual indigent consumption and subsidies in the 2017/2018 already exceeded budget at mid-year.

The following subsidies are applicable in terms of the Indigent Household and Consumer Subsidy:

**Table 8 – Indigent Subsidy Suite**

Service	Subsidy	Applicable Section
Water and Sanitation	6kl including Basic Charge; A subsidy equal to the flat rate for un-metered households.	13(1)
Electricity	50kWh of electricity per month.	13(2)
Refuse Removal	As provided for in the budget and depending on the tariff for the financial year.	13(3)
Property Rates	As provided for in the budget and as determined by Council from time to time.	13(4)
Market Related Rental	Subsidy up to the maximum of 60% of the payment of site rental.	13(5)

### 1.5 Capital expenditure

Capital expenditure for the 2018/2019 MTREF is funded as follows:

**Table 9 – Funding of the Capital Budget**

Description	2018/19 MTREF					
Rand	Budget Year 2018/19	%	Budget Year+1 2018/19	%	Budget Year+2 2018/19	%
<b>Funded by:</b>						
National Government	214 968 550		223 398 650		201 756 850	
Provincial Government	29 644 000		-		-	
District Municipality	-		-		-	
Other Transfers and Grants	-		-		-	
<b>Transfers Recognised – Capital</b>	<b>244 612 550</b>	<b>86%</b>	<b>223 398 650</b>	<b>57%</b>	<b>201 756 850</b>	<b>54%</b>
Public Contributions and Donations	-		-		-	
Borrowing	-		-		-	
Internally Generated Funds	42 999 950	14%	167 849 007	43%	168 428 267	46%
<b>Total Capital Funding</b>	<b>287 612 500</b>	<b>100%</b>	<b>391 247 657</b>	<b>100%</b>	<b>370 185 117</b>	<b>100%</b>

The Proposed Capital Budget for the 2018/2019 financial year amounts to R 287 612 500 (Adjusted Budget 2017/2018 – R 383 459 365) and is funded as per the table 9 above. Only fourteen per cent (14%) of the capital budget is funded from internally generated revenue.

The proposed draft capital budget comprises of the following projects:

- Library Grant Projects amount to R 4 000 000;
- Municipal Infrastructure Grant (MIG Projects) for various clusters amount to R157 119 550;
- Neighbourhood Development Partnership Grant amounts to R 37 849 000:
- Water Services Infrastructure Grant amounts to R 20 000 000;
- Minor Capital for various clusters amounts to R 4 000 000;
- Plotter for the planning department R 200 000;
- Red, Yellow and White Plant for Basic Services Cluster for R 30 000 000 and
- mSCOA capital for the integration of outstanding sub-systems amounts to R 1 000 000.

## **PART 2 – SUPPORTING DOCUMENTATION**

### **2.1 Overview of the Annual Budget Process**

Council approved an Integrated Process Plan in August 2017 as required by section 21 of the Municipal Finance Management Act and section 34 of the Municipal Systems Act (MSA). The plan outlined key deadlines for the review of the Integrated Development Plan (IDP), Budget and other processes required by municipal legislation.

The Executive Mayor established a Budget Panel to advise him in terms of section 52 (d) of the MFMA. The panel convened as follows to discuss the proposed budget and inputs made by various clusters for the 2018/2019 financial year:

**Table 10 – Budget Panel Meetings**

<b>Cluster</b>	<b>Date</b>
Corporate Services (Shared Services)	Friday 02 March 2018
Basic Services (Public Works)	Sunday 04 March 2018
Municipal Manager	Sunday 04 March 2018
Agriculture & Economic Development & Planning, & Housing (Economic Development)	Tuesday 06 March 2018
Public Safety and Community Development (Community Services)	Wednesday, 07 March 2018
Political Offices	Wednesday, 07 March 2018
Financial Services	Wednesday, 07 March 2018

The draft budget was thereafter considered by the Senior Management Team, The joint IDP and Budget Steering Committee and the Portfolio Committee on Finance en-route to Council. A process of public consultation on the draft IDP and draft budget was undertaken during the month of April and May 2018.

Detail of the issues raised during the public participation is part of the IDP document.

## **2.2 Overview of alignment of the Budget with the IDP**

The following seven strategic objectives as per the IDP, which are aligned to the Sedibeng region strategic objectives have not been amended in the 2018/2019 financial year and a reconciliation of these to revenue and expenditure is reflected in supporting tables SA4 (reconciliation of budgeted income), SA5 (reconciliation of operating expenditure) and SA6 (reconciliation of budgeted capital expenditure):

- a. Re-inventing our economy;
- b. Renewing our communities;
- c. Reviving a sustainable environment;
- d. Re-integrating our region;
- e. Releasing human potential;
- f. Good and sustainable financial governance; and
- g. Vibrant democracy.

## **2.3 Measurable Performance Objectives and Indicators**

The Service Delivery and Budget Implementation Plan (SDBIP) of the municipality will be drafted and will be considered by the Executive Mayor after approval of the budget in terms of the MFMA.

The final Integrated Development Plan (IDP) is tabled as a separate item to this draft budget.

## **2.4 Overview of Budget Related Policies and By-laws**

In terms of regulation 7 of the Municipal Budget and Reporting Regulations (MBRR) when an annual budget is tabled it must be accompanied by any proposed amendments to policies and by-laws due to annual review process. The following budget-related policies and by-laws were reviewed:

### **2.4.1 Virements Policy (See Separate Cover Document (pages 185 - 191))**

Amendments were made to align to the recommendations of MFMA Budget Circulars 51 and 89. The seven segments as required by the mSCOA Regulations need to be considered for all transfers of funds and as result transfers across segments are prohibited. Definitions of mSCOA Segments have also been added. This requires of management to budget more diligently the first time around as corrections by means of transfers of funds will be limited.

### **2.4.2 Budget Policy (See Separate Cover Document (pages 192 - 197))**

The requirements that all line items at a transactional level must comprise of the seven mSCOA segments was added.



- An **annexure (pages 192 - 197) of the Separate Cover Document** of the Policy “Approval of Payment” was amended to ensure that departments procure from correct and properly defined line items in terms of the relevant mSCOA Chart.
- 2.4.3 Funding and Reserves Policy (**See Separate Cover Document (pages 198 - 205)**)  
Corrections of wording were made to the purpose of the policy to add clarity to its purpose.  
The following revenue policies are tabled for approval.
- 2.4.4 Credit Control, Debt Collection and Customer Care Policy (**See Separate Cover Document (pages 38 - 69)**)
- 2.4.5 Recoverable Debt and Write-off of Irrecoverable Debt Policy (**See Separate Cover Document (pages 70 - 79)**)
- 2.4.6 Property Rates by-Laws (**See Separate Cover Document (pages 80 - 84)**)
- 2.4.7 Indigent Household and Consumer Subsidy Policy (Free Basic Services) (**See Separate Cover Document (pages 85 - 99)**)
- 2.4.8 Property Rates (**See Separate Cover Document (pages 100 - 109)**)
- 2.4.9 Tariffs By-Laws (**See Separate Cover Document (pages 160 - 164)**)
- 2.4.10 Tariff Policy (**See Separate Cover Document (pages 165 - 184)**)

## 2.5 Overview of Budget Assumptions

MFMA Budget Circular 89 issued on 08 December 2017 and MFMA Budget Circular 91 issued on 07 March 2018, inform assumptions for the 2018/2019 budget.

### 2.5.1 The South African Economy and Inflation Targets (Circular 89)

*“It is important to note that the 2017 projected Gross Domestic Product (GDP) growth forecast of 1.3 per cent in the 2017/18 budget was revised down to 0.7 per cent. The rate of recovery will be slow and at this time, it is anticipated that growth of 1.9 per cent may be reached by 2020.”*

The projections are slightly optimistic in terms of Circular 91:

*“The GDP growth rate is forecasted at 1.5 per cent in 2018, 1.8 per cent in 2019 and 2.1 per cent in 2020. Statistics South Africa’s December 2017 economic statistics showed an unexpected improvement in the economic outlook, largely as a result of growth in agriculture and mining.”*

The growth forecasts are low and revenue and collections might therefore not improve and in the light of this the municipality projected prudently for revenue.

In terms of the circular 91, the following macro-economic forecasts must be considered when preparing the 2018/19 MTREF municipal budgets:

**Table 11 - Macroeconomic performance and projections, 2017 – 2020**

Fiscal year	2017/18	2018/19	2019/20	2020/21
	Estimate	Forecast		
CPI Inflation	5.3%	5.3%	5.4%	5.5%

Fiscal year	2017/18	2018/19	2019/20	2020/21
	Estimate	Forecast		
Real GDP Growth	1.0%	1.5%	1.8%	2.1%

## 2.5.2 Key focus areas for the 2018/19 budget process

### 2.5.2.1 Local government conditional grants and additional allocations

*“A total of R13.9 billion has been cut from direct local government conditional grant allocations for the Medium Term Expenditure Framework (MTEF) period ahead since the 2017 MTBPS was tabled....”*

*” ....The infrastructure conditional grants, particularly the larger ones, were mainly affected as this was considered the most practical approach. The overall impact of reducing this funding affects capital programmes; therefore local government’s share of the reductions is higher than their share of the division of revenue, given that municipalities receive a number of infrastructure grants....”*

The MIG allocation for Emfuleni L.M. was reduced to R 165 389 000 in 2018/19. The indicative amount as per the Division of Revenue Act (DORA) of 2017 was R 182 407 000. Neighbourhood Development Partnership Grant was reduced to R 37 849 000. The indicative amount in terms of the DORA 2017 was R 50 000 000.

### 2.5.2.2 Municipal Standard Chart of Accounts (mSCOA)

The implementation of mSCOA Regulations from 01 July 2017 revealed challenges with version 6.1 of the chart. As a result of this, the chart was updated and version 6.2 is released with Circular 89. Version 6.2 of the chart will be effective from 2018/19 and must be used to compile the 2018/19 MTREF.

*“Municipalities are urged to review the policy and update reference to “Vote” to align to the function segment and indicate the funding applicable to the item being transferred in relation to the funding segment. Therefore, with the implementation of mSCOA, virements can only take place within a function or sub-function and the same source of funding. The creation of new projects or savings across functions can only take place through an adjustment budget. The policy must clearly articulate that virements should not be allowed from the repairs and maintenance project in the project segment.”*

Revised draft Virements, Budget and Funding and Reserves Policies are tabled with this draft budget for consideration by Council.

Municipalities are urged to use Internal Audit functions to audit mSCOA and must table their reports in Council.

### 2.5.2.3 The Revenue Budget

*“The Consumer Price Index (CPI) inflation is forecasted to be within the upper limit of the 3 to 6 per cent target band; therefore municipalities are required to justify all increases in excess of the projected inflation target for 2018/19 in their budget narratives, and pay careful attention to the differential incidence of tariff increases across all consumer groups. In addition municipalities should include a detail of their revenue growth assumptions for the different service charges in the budget narrative.”*

The National Energy Regulator of South Africa (NERSA) published their "Municipal Tariff Guideline Increase, Benchmarks and Proposed Timelines for Municipal Tariff Approval Process for the 2018/19 Financial Year" on 28 February 2018. The NERSA document proposes a 6.84 per cent guideline increase for municipal electricity tariffs for 2018/19. This is based on a bulk tariff increase for municipalities of 7.32 per cent.

#### 2.5.3.4 Maximising the revenue generation of the municipal revenue base

*"The implementation of mSCOA requires systems integration of several sub-systems such as that which contains the municipal valuation roll. Among the internal controls, the system must have the capability to compare the valuation roll data to that of the billing system; the list of exceptions derived from this reconciliation provides an indication of where the municipality may be compromising its revenue generation in respect of property rates. Municipalities must reconcile valuation roll data, billing system and the deeds office. This may become a formal disclosure item in the near future."*

#### 2.5.3.5 Service Level Standards

*"A broad guideline was provided on the minimum service standards to be incorporated in the budget documentation. In addition, MFMA Circular No.74 included a framework that was developed as an outline to assist municipalities in finalising their service level standards."*

*Municipalities are advised to update the service level standards to align to the new IDPs that were compiled after the 2016 Local Government Elections. As indicated in MFMA Circular No.74 it is not possible to have the same service level standards across all municipalities. Therefore, the outline must be used as a guideline and be amended accordingly to align to the municipality's specific circumstances."*

--- Service Level Standards are attached as **Annexure (pages 44 - 46)** to this report.

## 2.6 Overview of the draft Budget Funding

--- 1. The following tariffs adjustments are proposed for the financial year (**See Separate Cover Document (pages 206 - 292) for the Tariff Booklet**):

- a) Assessment Rates – 6.1 % (with discounts remaining at 30%);
- b) Electricity – 6.84 % (subject to approval by NERSA);
- c) Water – 12.2 % (in line with the tariff increase from Rand Water)
- d) Sanitation – 12.2 %;
- e) Refuse – 8 %;
- f) Other tariffs – 6.1 %;

The Division of Revenue Bill 2018 was used to determine grants receivable for the 2018/2019 financial year. The Gauteng provincial gazette was used to project provincial grants for the 2018/2019 to 2020/2021 period.

## 2.7 A-Schedules for the 2017/18 financial year

MFMA Budget Circular 86 relating to the 2017/18 budget process requires the following regarding the A-schedules (prescribed budget tables):

### *"7.1 Budgeting for the audited years on the A schedule (mSCOA)*

*According to international best practices, it is appropriate to reclassify historical information in line with the changes that occur in the Standard Chart of Accounts. However, considering our own circumstances and the technical capability of smaller municipalities, it is proposed that municipalities disclose audited and the current years' (2016/17) information using version 2.8 of the A-schedule. In relation to the 2017/18 MTREF municipalities must use version 6.1 of the A schedule. By implication two separate schedules must be submitted"*

The municipality will not have history for the three financial years in terms of the mSCOA classification and the information presented in the A-Schedules therefore relates to the current year of 2017/2018 and the MTREF period.

Further the A-Schedules are compiled on the mSCOA Chart 6.2 as required by MFMA Circular 89.

## **2.8 Draft Cost Containment Regulations**

--- The National Treasury issues the draft Local Government: Municipal Financial Management Act, 2003 – Municipal Cost Containment Regulations on 16 February 2018 in terms of section 169(1)(b) of the MFMA. See **Annexure (pages 35 - 43)**.

The object of the regulations, .."in line with section 62(1)(a), 78(1)(b) , 95(a) and 105(1)(b) of the Act, is to ensure that resources of a municipality and municipal entity are used effectively, efficiently and economically by implementing cost containment measures"

The regulations require that municipalities must revise or development and implement cost containment policies which must be consistent with the MFMA the cost-containment regulations.

Emfuleni Local Municipality previously adopted cost-containment measures and the four pillars strategy to maximise revenue and to curb expenditure. Alignment of the current measures and a development of a policy in terms of regulation 4(1) of the regulations are currently underway for presentation in the next Council meeting.

## **2.9 Municipal manager's quality certificate**

I ....., municipal manager of Emfuleni local Municipality, hereby certify that the annual budget and supporting documentation for the 2017/18 financial year have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name \_\_\_\_\_

Municipal manager of Emfuleni Local Municipality (GT421)

Signature \_\_\_\_\_

Date \_\_\_\_\_

## **RECOMMENDED THAT**

1. the proposed final 2018/2019 - 2020/21 Medium Term Revenue and Expenditure Framework (MTREF) of R 5 745 459 596 which consists of the operational budget of R 5 457 847 096 and capital budget of R 287 612 500 in the 2018/19 financial year, be approved by Council in terms section 24 of the Municipal Finance Management Act No 56 of 2003, as contained in the following tables:
  - a. Table A1 - Budget Summary;
  - b. Table A2 - Budgeted Financial Performance (Revenue and expenditure by standard classification);
  - c. Table A3 - Budgeted Financial Performance (Revenue and Expenditure by Municipal Vote);
  - d. Table A4 - Budgeted Financial Performance (Revenue and Expenditure);
  - e. Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding;
  - f. Table A6 - Budgeted Financial Position;
  - g. Table A7- Budgeted Cash Flows;
  - h. Table A8 - Cash backed reserves / accumulated surplus reconciliation;
  - i. Table A9 - Asset management; and
  - j. Table A10 – Basic Service Delivery Measurement;
2. the following proposed adjustments to the tariffs be approved by Council, **Separate Cover Document (pages 206 - 292) to the report; the Tariff Booklet)**:
  - a. Assessment Rates – 6.1% (with discounts maintained at 30%);
  - b. Electricity – 6.84% (in terms of the NERSA Guideline);
  - c. Water – 12.2%;
  - d. Sanitation – 12.2%;
  - e. Refuse – 8%;
  - f. Other tariffs – 6.1%;
3. the following budget-related policies and by-laws be approved by Council:
  - a. Draft Credit Control, Debt Collection Policy and Customer Care By-laws (**See Separate Cover Document (pages 1 - 37))**;
  - b. Draft Credit Control, Debt Collection Policy and Customer Care Policy (**See Separate Cover Document (pages 38 - 69))**;
  - c. Draft Principles and Policy on Recoverable Debt and the Write-off of Irrecoverable Debt (**See Separate Cover Document (pages 70 - 79))**;
  - d. Draft Property Rates By-laws (**See Separate Cover Document (pages 80 - 84))**;
  - e. Indigent Household and Consumer Subsidy Policy (Free Basic Services) (**See Separate Cover Document (pages 85 - 99))**;
  - f. Draft Property Rates levies, exemptions, rebates and reductions (incremental tariff adjustment were made) (**See Separate Cover Document (pages 100 - 109))**;
  - g. Draft Property Rates Policy (**See Separate Cover Document (pages 110 - 159))**;
  - h. Draft Tariff By-laws (**See Separate Cover Document (pages 160 - 164))**;
  - i. Draft Tariff Policy (**See Separate Cover Document (pages 165 - 184))**;
  - j. Virements Policy (**See Separate Cover Document (pages 185 - 191))**;
  - k. Budget Policy (**See Separate Cover Document (pages 192 - 197))**; and
  - l. Funding and Reserves Policy (**See Separate Cover Document (pages 198 - 205))**;

5. the Rates, Levies, Taxes and other tariffs for the 2018/2019 Financial Year be approved by Council, and that after approval, the Determination of Rates Levies be promulgated as required in terms of Section 14(2) of the Local Government: Municipal Property Rates Act, No 6 of 2004;
6. the Service Delivery Level Standards in terms of MFMA Budget Circular 89 for the 2018/19 be approved by Council; and
7. the draft Municipal Cost Containment Regulations issued by the National Treasury on 16 February 2018 in terms of Government Gazette no 41445 be adopted for the 2018/19 financial year.